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AZ CORP COMMISSION
DOCUMENT CONTROL

Attorney for Arizona Water Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF AJO IMPROVEMENT COMPANY FOR
A RATE INCREASE

DOCKET NO. WS-01025A-03-0350

**NOTICE OF FILING
SURREBUTTAL TESTIMONY
AND EXHIBITS**

Intervenor Arizona Water Company hereby files the Surrebuttal Testimony and Exhibits
of Sheryl L. Hubbard in the above-captioned docket.

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Arizona Corporation Commission

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DATED this 17th day of March 2004.

ARIZONA WATER COMPANY

By: Robert W. Geake

Robert W. Geake
Vice President and General Counsel
Arizona Water Company
P.O. Box 29006
Phoenix, AZ 85038-9006

An original and 13 copies of the foregoing, and attached documents were delivered this 17th day of March, 2004, to:

Docketing Supervisor
Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

A copy of the foregoing was Delivered this 17th day of March, 2004, to:

Michael Patten
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Phoenix, AZ 85015

1 A copy of the foregoing was
2 mailed this 17 day of March, 2004 to:

3 Jane L. Rodda, Administrative Law Judge
4 Hearing Division
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, AZ 85007

8 Christopher Kempley, Chief Counsel
9 Legal Division
10 1200 W. Washington Street
11 Phoenix, AZ 85007

12 Mr. Ernest G. Johnson, Director
13 Utilities Division
14 Arizona Corporation Commission
15 1200 West Washington
16 Phoenix, AZ 85007

17 By: Robert W. Yeake
18 1208295.1

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8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9
10 IN THE MATTER OF THE
APPLICATION OF AJO
11 IMPROVEMENT COMPANY FOR
RATE ADJUSTMENTS IN ITS WATER
AND WASTEWATER RATES.
12

Docket No. WS-01025A-03-0350

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18 **SURREBUTTAL TESTIMONY**

19 **OF**

20 **SHERYL L. HUBBARD**
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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. What is your name, employer and occupation?**

3 A. My name is Sheryl L. Hubbard. I am employed by Arizona
4 Water Company ("Arizona Water") as Manager of Rates and
5 Regulatory Accounting.

6 **Q. ARE YOU THE SAME SHERYL L. HUBBARD WHO CAUSED TO BE FILED
7 DIRECT TESTIMONY IN THIS PROCEEDING?**

8 A. Yes, I am.

9 **II. PURPOSE AND EXTENT OF TESTIMONY**

10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS
11 PROCEEDING?**

12 A. The purpose of my surrebuttal testimony in this proceeding
13 is to reassert that the cost to serve Arizona Water is less
14 than Ajo Improvement's costs to serve other customers in its
15 service territory, contrary to Ajo Improvement's rebuttal
16 testimony that Arizona Water's commodity rate should be set
17 at a level that is no less than the system average rate.

18 **III. BASIS OF ARIZONA WATER'S ASSERTION**

19 **Q. PLEASE DISCUSS THE BASIS OF ARIZONA WATER'S ASSERTION THAT
20 AJO IMPROVEMENT'S COST TO SERVE ARIZONA WATER IS LESS THAN
21 THE COST OF SERVING ITS OTHER CUSTOMERS.**

22 A. As a result of Ajo Improvement's wholesale service
23 arrangement with Arizona Water, Ajo Improvement benefits
24 from economies of scale derived from its ability to operate
25 its treatment facility without the normal increases and
26 decreases in demand associated with on-peak and off-peak

1 consumption that other water treatment facilities generally
2 experience. Because of the level, off-peak characteristics
3 of Arizona Water's usage, Ajo Improvement is able to operate
4 its treatment facility with a relatively flat base load.
5 This type of demand reduces the overall treatment costs,
6 which is a benefit to all of Ajo Improvement's general
7 service customers. Additionally, Arizona Water derives no
8 benefit from Ajo Improvement's storage facilities because
9 Arizona Water is restricted to service during non-peak
10 periods. Consequently, the service provided to Arizona Water
11 by Ajo Improvement is not the same as Ajo Improvement's
12 service to its other customers. Accordingly, Arizona
13 Water's rates should be less than the system average to
14 account for these inherent benefits to Ajo Improvement and
15 its other general service customers that result from the
16 provision of service to Arizona Water.

17 By designing commodity rates that do not reflect the
18 differences in the cost of service between Arizona Water and
19 Ajo Improvement's other customers, a subsidy is provided by
20 the customers of Arizona Water to the customers of Ajo
21 Improvement. As stated in my direct testimony, Ajo
22 Improvement's proposed rate design does not recognize the
23 service limitations under which Arizona Water receives water
24 or exclude any of the costs that are not attributable to the
25 provision of service to Arizona Water.

26 **IV. PROPOSED RATE DESIGN**

1 Q. WHAT RATES ARE YOU PROPOSING FOR THE 4-INCH METER CUSTOMER
2 USING TREATED WATER?
3 A. Ajo Improvement has not advanced any convincing arguments
4 why the commodity rates charged to a wholesale customer with
5 a required uniform daily demand should be the same as the
6 commodity rate charged to full-service distribution
7 customers with varying load factors and peak demand.
8 Consequently, Arizona Water proposes a commodity rate of
9 \$2.67 per 1000 gallons with a monthly minimum rate of \$210.
10 Q. DOES THAT COMPLETE YOUR SURREBUTTAL TESTIMONY IN THIS
11 MATTER?
12 A. Yes, it does.
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